

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Webb County, Texas we offer readers of the County's financial statements, this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2003.

It is designed to:

- assist the reader in focusing on significant financial issues
- provide an overview of the County's financial activity
- identify changes in the County's financial position (its ability to address the next and subsequent year challenges)
- identify any material deviations from the financial plan (the approved budget) and
- identify individual fund issues or concerns.

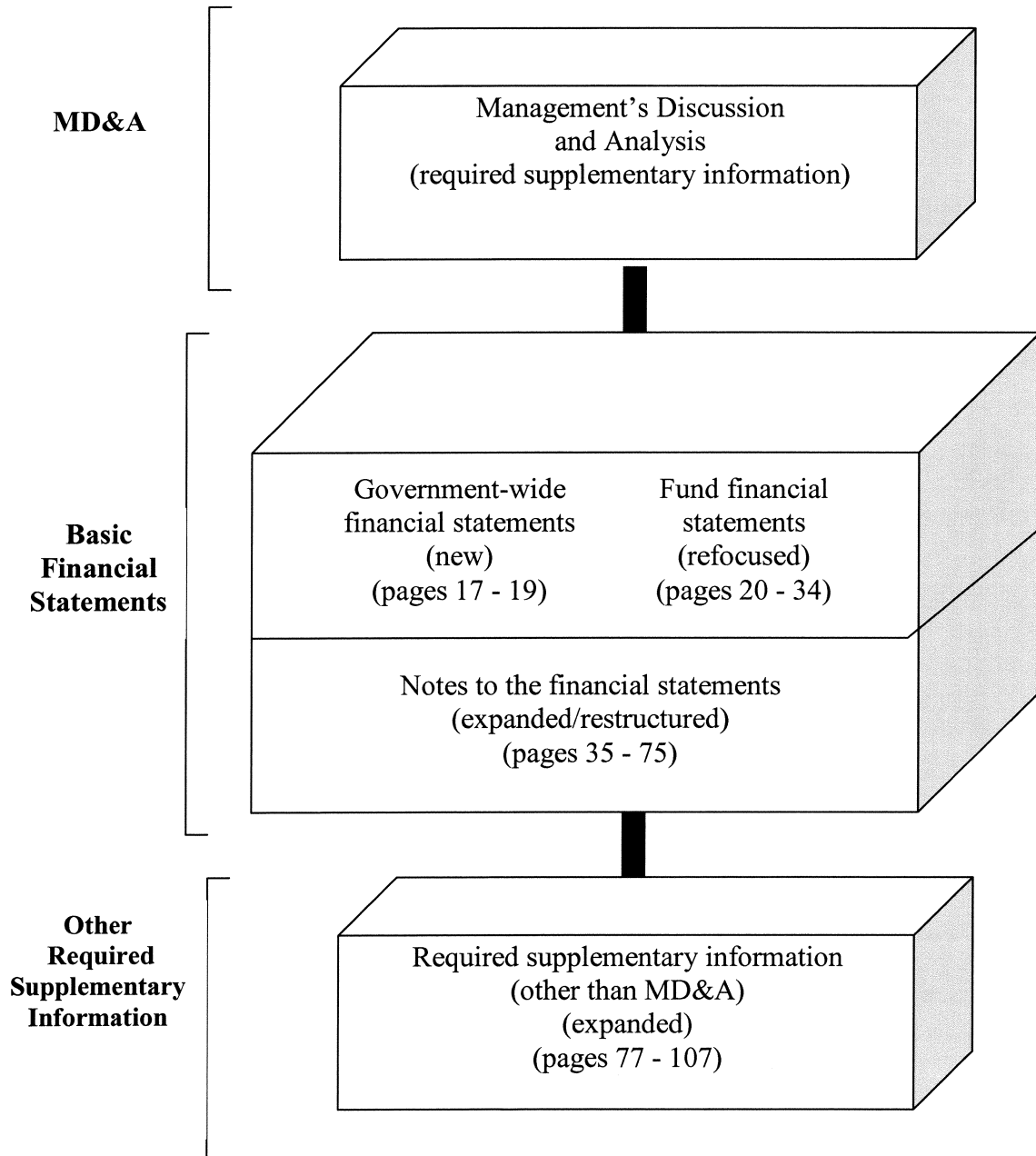
Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter (beginning on page vii) and the County's financial statements (beginning on page 17).

### **FINANCIAL HIGHLIGHTS**

- The assets of the County of Webb exceeded its liabilities at the close of the fiscal year 2003 by \$65,224,028 (*total net assets*). Of this amount, \$21,203,071 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$1,592,440 (2.5%) during 2003.
- The governmental net assets increased by \$1,665,149 (2.6%) and the business-type net assets decreased by \$72,709 (17.4%) during 2003.
- As of the close of the current fiscal year, the County of Webb's governmental funds reported a combined ending fund balance of \$32,638,828
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,401,456 (15.4%) of total general fund expenditures.

## USING THIS ANNUAL REPORT

In order to assist the readers in using this annual report, the following graphic is provided for your review.



## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

The basic financial statements include the Statement of Net Assets and the Statement of Activities, on pages 17 - 19, which provide information about the activities of the County as a whole (government-wide) and present a longer-term view of the County's finances. For governmental activities, fund financial statements provide an overview of how these services were financed in the short-term as well as what remains for future spending. Fund financial statements start on page 20. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds.

The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (including this analysis).

### **Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the County of Webb's finances, in a manner similar to private sector business. The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the *financial position* of the County is improving or deteriorating. During 2003, the net assets of the County increased by \$1.6 million.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*, thus being consistent with *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

The Statement of Net Assets and the Statement of Activities, present information about the two types of County activities:

- **Governmental activities** - All of the County's basic services are considered to be governmental activities, including general government, public safety, justice system, health and human services, infrastructure and environmental services, correction and rehabilitation, and community and economic development. Property taxes, intergovernmental revenue and charges for services finance most of these activities.

- **Business-type activities** - Other functions of the County that are intended to recover all or a significant portion of their costs through user fees and charges are considered to be business-type activities. This includes the Webb County Water Utility Fund.

*The government-wide financial statements can be found on pages 17 – 19 of this report.*

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's three categories of funds – *governmental, proprietary and fiduciary* use different accounting approaches.

**Governmental Funds** - Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general governmental operations and the basic services it provides.

Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 121 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Headstart Fund, Capital Projects Interest Income Funds Series 2001 and 2002 and the Juvenile Youth Village Fund, each of which are considered to be major funds. Data from the other 116 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements elsewhere* in this report.

The basic governmental fund financial statements can be found on pages 20 - 27 of this report.

***Proprietary Funds*** - The County maintains two different types of proprietary funds, enterprise and internal service funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its Water Utility Fund. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for support services provided to other departments, which includes the employees' health benefits and worker compensation funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements elsewhere* in this report.

The basic proprietary fund financial statements can be found on pages 28 - 32 of this report.

***Fiduciary Funds*** - The County is the trustee, or *fiduciary*, for certain amounts held on behalf of others. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on pages 33 - 34 of this report.

***Notes to the Financial Statements:*** The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 - 75 of this report.

***Required Supplementary Information:*** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes a schedule concerning the County's progress in funding its obligation to provide pension benefits to county employees. Required supplementary information can be found on pages 77 - 107 of this report.

***Other Information:*** The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 108 - 374 of this report.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the County's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the County's assets exceeded its liabilities by \$65,224,028 at September 30, 2003.

**Webb County's Net Assets**  
(in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Current and other assets	\$ 57,049	\$ 63,957	\$ 2,079	\$ 2,387	\$ 59,129	\$ 66,343
Capital Assets	83,389	90,382	3,124	3,027	86,513	93,408
Total assets	140,439	154,338	5,203	5,413	145,642	159,752
Long-term liabilities outstanding	66,088	68,432	4,736	4,793	70,824	73,225
Other liabilities	9,470	15,282	123	150	9,593	15,432
Total liabilities	75,558	83,714	4,860	4,943	80,417	88,657
Net assets:						
Invested in capital assets, net of related debt	18,787	32,856	363	356	19,150	33,212
Restricted	24,871	25,772	-	-	24,871	25,772
Unrestricted	21,223	11,997	(20)	114	21,203	12,111
<b>Total net assets</b>	<b>\$ 64,881</b>	<b>\$ 70,625</b>	<b>\$ 343</b>	<b>\$ 470</b>	<b>\$ 65,224</b>	<b>\$ 71,094</b>

By far, the largest portion of the County's net assets, \$24,871,359 (38.1%) represents resources that are subject to external restrictions on how they may be used.

An additional portion of the County's net assets, \$21,203,071 (32.6%) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining balance of *invested in capital assets net of related debt* \$19,149,598 (29.3%) reflects investment in buildings, vehicles, equipment, infrastructure and construction and infrastructure in progress, less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the County as a whole is able to report positive balances in all three categories (invested in capital assets - net of related debt, restricted and unrestricted) of net assets. When taken separately, the governmental activities column is the only section reporting positive balances for the three categories. On the other hand, the business-type activities column reported a negative balance of \$19,522 in the *unrestricted* category of net assets but had a positive balance in the *invested in capital assets, net of related debt*, of \$362,622 resulting in an ending balance of \$343,100 in *total net assets*.

The following table demonstrates, the County's net assets increased by \$1,592,440 during the current fiscal year. Business-type activities did experience a shortfall in net assets before transfers; however, increases in charges for services have improved the condition overall.

**Webb County, Texas**  
**Changes in Net Assets**  
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>REVENUES</b>						
<b>Program revenues:</b>						
Charges for services	\$ 10,752	\$ 8,821	\$ 1,114	\$ 1,037	\$ 11,865	\$ 9,858
Operating grants and contributions	26,262	25,329	-	-	26,262	25,329
Capital grants and contributions	1,163	1,799	-	-	1,163	1,799
<b>General revenues:</b>					-	-
Property taxes	33,010	29,375	-	-	33,010	29,375
Other taxes	9,692	9,133	-	-	9,692	9,133
Other	3,322	2,901	25	41	3,347	2,942
<b>Total Revenues</b>	<u>\$ 84,200</u>	<u>\$ 77,358</u>	<u>\$ 1,139</u>	<u>\$ 1,078</u>	<u>\$ 85,338</u>	<u>\$ 78,436</u>
<b>EXPENSES</b>						
<b>Program activities</b>						
<b>Primary government:</b>						
Governmental activities:						
General Government	\$ 13,487	\$ 11,947			13,487	\$ 11,947
Public Safety	7,985	7,439			7,985	7,439
Justice System	18,844	15,108			18,844	15,108
Health and Human Services	17,295	15,098			17,295	15,098
Infrastructure and Environmental Services	7,833	5,658			7,833	5,658
Correction and Rehabilitation	12,415	11,352			12,415	11,352
Community and Economic Development	1,973	2,476			1,973	2,476
Interest on Long-term Debt	3,169	2,748			3,169	2,748
<b>Business-type Activities</b>					-	-
Webb County Water Utility			\$ 1,244	1,085	1,244	1,085
<b>Total Expenses</b>	<u>\$ 83,002</u>	<u>\$ 71,826</u>	<u>\$ 1,244</u>	<u>\$ 1,085</u>	<u>\$ 84,246</u>	<u>\$ 72,911</u>
Increase (decrease) in net assets before transfers	\$ 1,198	\$ 5,532	\$ (106)	\$ (7)	\$ 1,092	\$ 5,526
Transfers	467	(55)	33	55	500	-
Increase in net assets	<u>\$ 1,665</u>	<u>\$ 5,478</u>	<u>\$ (73)</u>	<u>\$ 48</u>	<u>\$ 1,592</u>	<u>\$ 5,526</u>
<b>Net assets - beginning of year (restated)</b>	63,216	65,147	416	422	63,632	65,569
<b>Net assets - end of year</b>	<u><u>\$ 64,881</u></u>	<u><u>\$ 70,625</u></u>	<u><u>\$ 343</u></u>	<u><u>\$ 470</u></u>	<u><u>\$ 65,224</u></u>	<u><u>\$ 71,094</u></u>

During the current fiscal year, the County's total revenues increased by \$6,901,872 (8.7%) and total expenses increased by \$11,334,962 (15.5%). Therefore expenses outpaced the growth in revenues by \$4,433,090. Nevertheless, total revenues for this year were more than total expenses resulting in an increase in *total net assets* of \$1,092,440 before transfers.

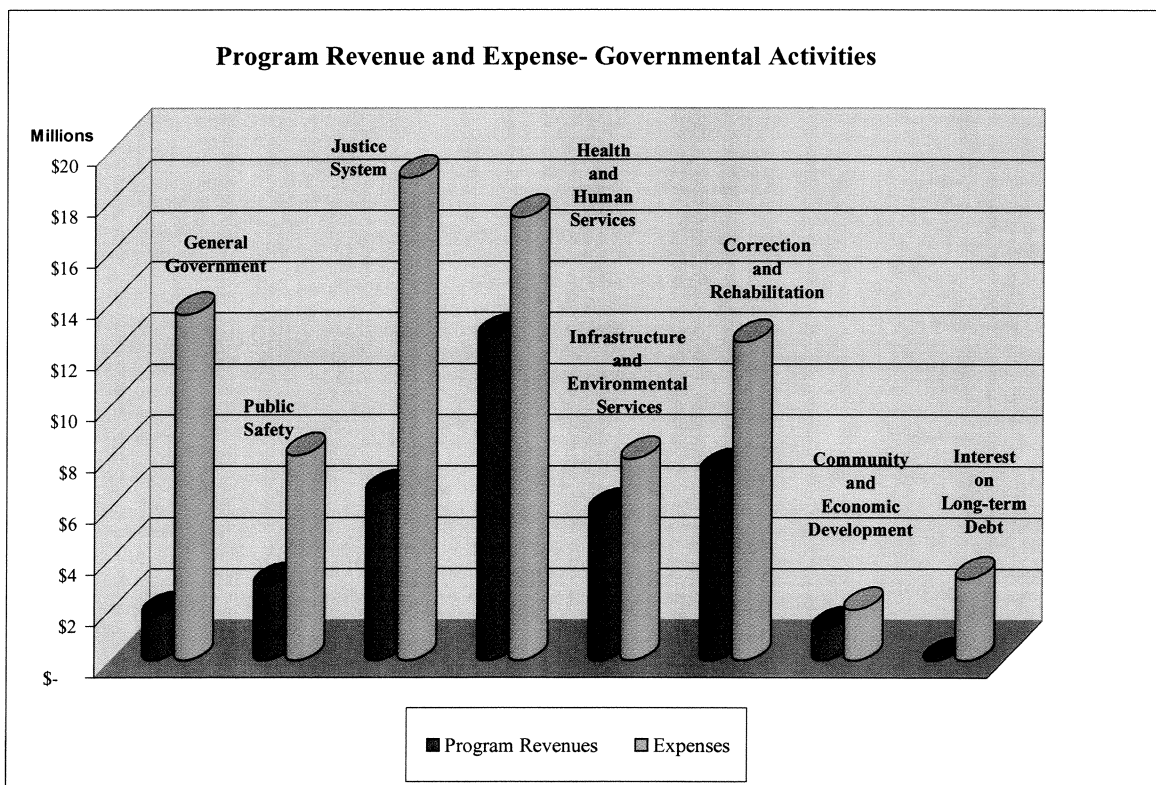


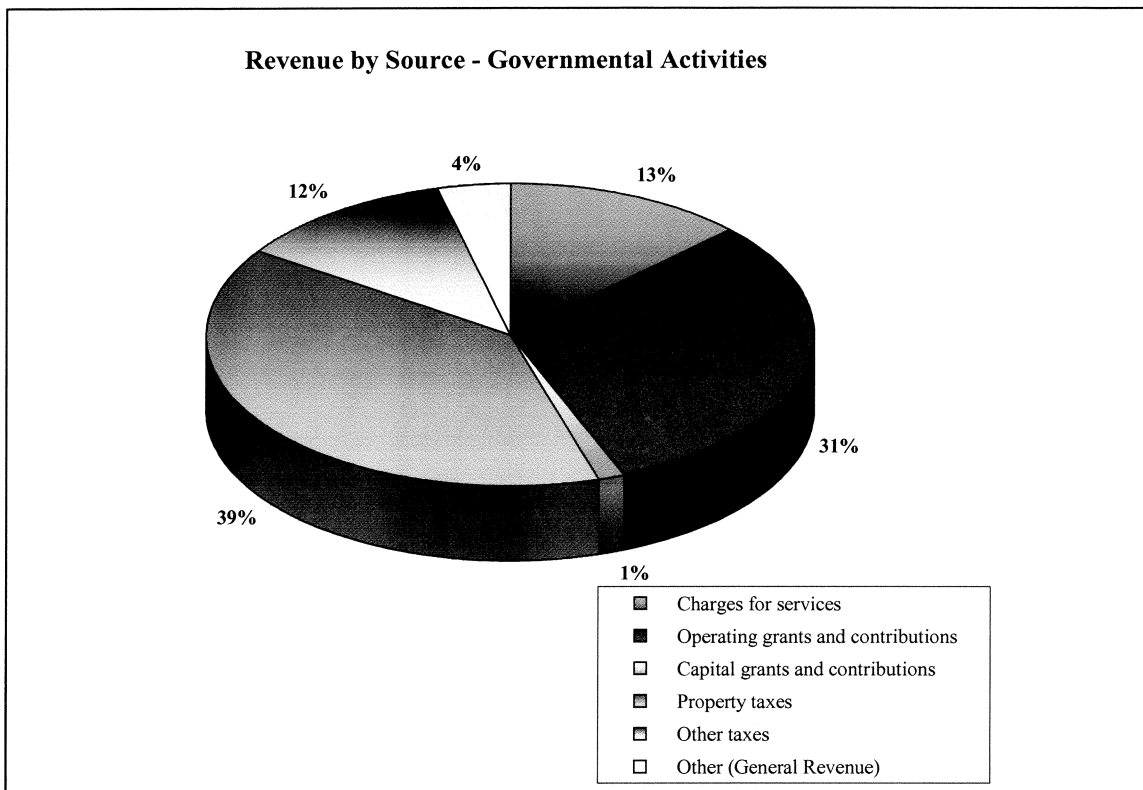
## **Governmental Activities**

Governmental activities increased the County's net assets by \$1,665,149, resulting in 104.5% of the growth in net assets. Key elements of this increase are as follows:

- Property taxes collected increased by approximately \$3.6 million (12.3%) from the previous fiscal year. Increase is the product of increased taxable values and residential growth.
- Operating grants and grant contributions for governmental activities increased by approximately \$933,000 from the previous fiscal year of which most of it was attributable to increased revenues for the boarding of prisoners in the County Jail.
- Charges for services revenues also increased by a moderate \$1,930,577 (21.8%).
- Special revenue taxes (sales and hotel/motel tax) increased by approximately \$558,406 from the previous fiscal year.
- Expenses of governmental activities increased by \$11,175,396 which compromised a 15.5 percent increase from the previous fiscal year.
- The most significant increases in expenses were evident in the functions of justice system and infrastructure and environmental services by approximately \$3.7 million (24.7%) and \$2.2 million (38.4%) from the previous fiscal year expenses respectively.

*The following charts represent the fiscal year trends for the governmental activities.*



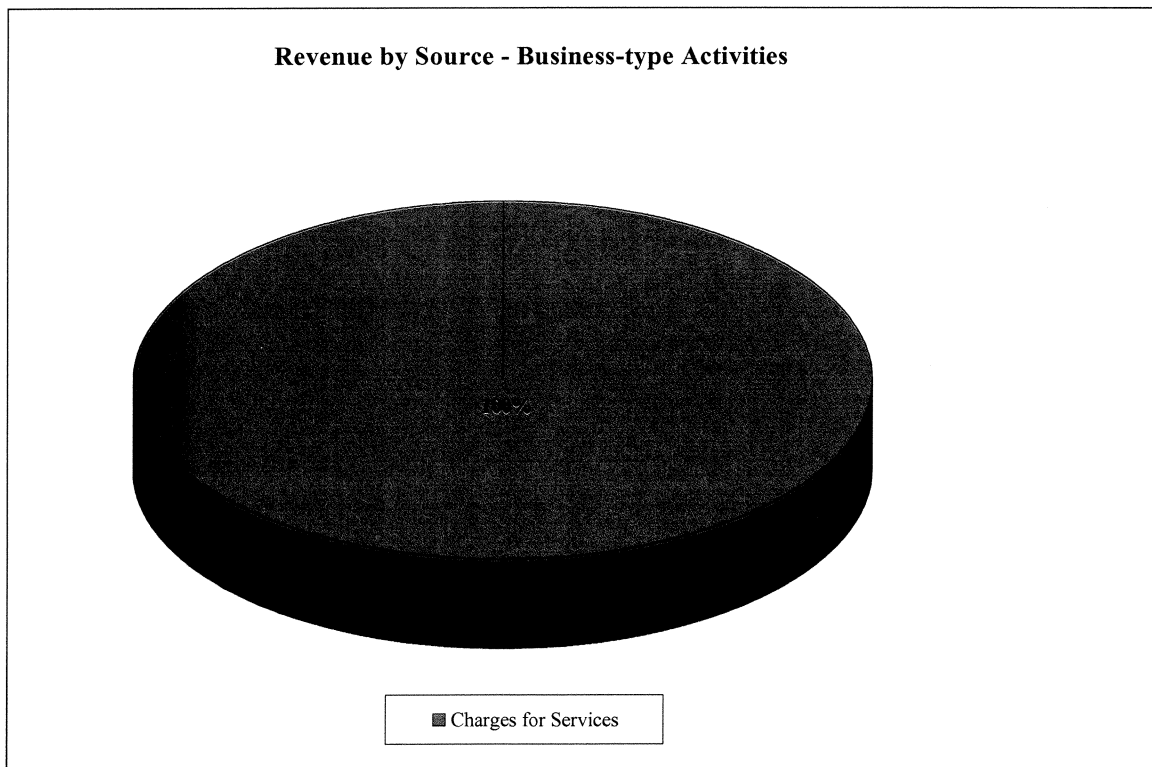
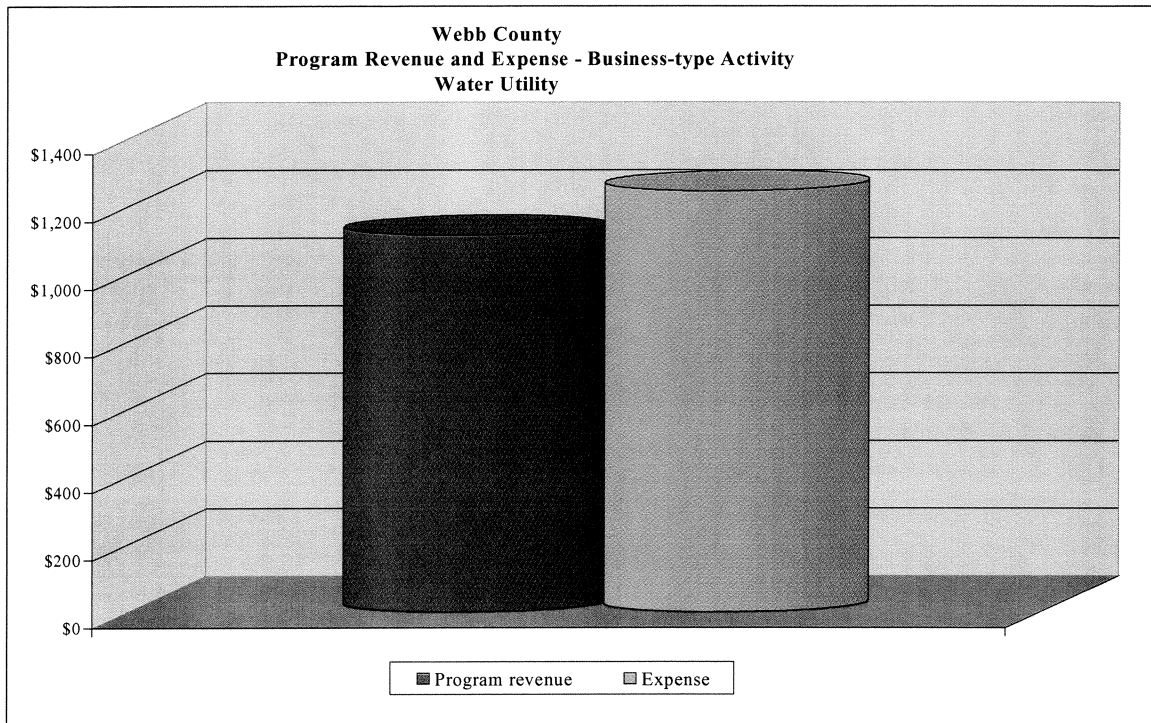


### **Business-type Activities**

Business-type activities decreased the County's net assets by \$72,709 which resulted in an ending net asset balance of \$343,100. Key elements of the current year decrease are as follows:

- Charges for services increased by approximately \$76,892 (7.4%), compared to the prior year. This is a result of increased service rates and a modest increase in demand.
- Expenses increased by \$159,566 (14.7%) from the previous year.

*The following charts represent the fiscal year trends for the business-type activity.*



## **FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS**

As noted earlier, Webb County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

### **Governmental Funds**

The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$32,638,828, a decrease of \$2,756,720 in comparison with the prior year. This was primarily due to other governmental funds using \$1,500,618 from their beginning fund balances.

The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved balance of the General Fund was \$7,401,456, while the total fund balance was \$7,538,006. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 15.4 % of total General Fund expenditures.

The County's General Fund balance decreased by \$1,438,445 from the previous fiscal year. Of this amount, approximately \$1 million in fund balance was anticipated and used from fund balance reserves to balance the budget for fiscal year 2003. Furthermore, the State of Texas passed a mandate Senate Bill 7 – Fair Defense Act which sets procedures of how and when counsel must be appointed to represent indigent defendants accused of crime. This mandate resulted in a cost increase of \$323,000 in Justice System expenditures. Based on 2003 state reports, Webb County ranks 11 out of 254 counties in Texas for indigent defense expenditures. In addition to this, indigent health care incurred expenditures in excess of its original budget amounts by more than \$883,000. The excess was attributable to deficiencies found during an internal audit; all of which have been addressed and are expected to be corrected.

The **Head Start Fund** accounts for resources received by the Department of Health and Human Services. These resources are used for student's education, nutrition, disability and medical services as well as parent's literary services. This fund does not contribute to the governmental fund balance at year end as the revenues received directly offset the expenses incurred.

Both the **Capital Projects Interest Income Funds Series 2001 and 2002** are used to account for interest earned on the investment of bond proceeds as required by bond covenants. Interest income is available for funding corresponding capital projects, if needed. At year end they contributed a combined total of \$121,597 to the governmental fund balance.

The **Juvenile Youth Village Fund** accounts for the \$11.3 million construction project which will house a juvenile detention center and juvenile justice alternative education program. Although expenditures for capital outlay were incurred, fund balance still increased by \$71,178 due to investment earnings of \$146,263.

### **Proprietary Funds**

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Total *net assets* of the Water Utility Fund at year end totaled \$313,584.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original and final amended budgets for expenditures resulted in a 3.7% increase, (\$1.8 million increase in appropriations). Ninety percent (90%) of the increase in appropriations can be attributed to transfers from the general fund balance to individual departments to cover unexpected and incurred expenditures.

At year end, general fund expenditures were less than budget estimates. The result was a \$2.5 million positive variance.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental and business type activities as of September 30, 2003, amounted to \$86,513,000 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, infrastructure in progress, buildings, equipment, furniture and construction in progress.

Major capital asset events during the current fiscal year included the following:

- New Heavy machinery at a cost of \$972,089.
- Various construction projects in progress with an estimated cost of \$832,269.
- Completion of a Community Center at a cost of \$346,279.
- Elevated storage tank at a cost of \$382,982

**Webb County's Capital Assets**

(net of depreciation)

(in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Land	\$ 5,637	\$ 5,637	\$ 216	\$ 202	\$ 5,853	\$ 5,839
Infrastructure and infrastructure in progress	23,185	22,451	2,422	2,308	25,607	24,759
Buildings	47,145	47,593	430	217	47,575	47,810
Equipment and furniture	6,684	14,334	55	106	6,739	14,441
Construction in progress	738	366	-	193	738	560
<b>Total</b>	<b>\$ 83,389</b>	<b>\$ 90,382</b>	<b>\$ 3,124</b>	<b>\$ 3,027</b>	<b>\$ 86,513</b>	<b>\$ 93,408</b>

Additional information on the County's capital assets can be found in note III C on pages 48 - 50 and on note I C (10) on page 44 of this report.

**Debt Administration**

At the end of the current fiscal year, the County had total bond debt outstanding of \$67,348,074. The bond debt is payable from the levy of a direct ad valorem tax on all taxable property located within the County.

The County's total debt decreased by \$2,288,891 (3.3%) from the previous fiscal year.

New borrowing during the year was \$12.6 million in limited tax refunding bonds. A key element for the Court's decision to issue new debt during the fiscal year included the opportunity for the County of Webb to refinance some of its existing debt with more favorable interest rates.

The Webb County Court Residential Treatment Center program was not funded by the State of Texas beyond August 31, 2003. This program was being housed in the facilities described above, and its funding included an amount that was used by the County to make rent payments to the PBCF, which in turn used the funds to make the debt payments on the Certificates of Participation, Series 1997 described above. Upon termination of State funding, the Court Residential Treatment Center ceased to operate. Consequently, the County authorized appropriations in its 2003-2004 annual budget to provide for the rent payments for that fiscal year.

**Webb County's Outstanding Debt**

General Obligation

(in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Certificates of obligation	\$ 28,978	\$ 36,242	\$ 2,707	\$ 2,763	\$ 31,685	\$ 39,005
General obligation refunding bonds	7,680	7,745			7,680	7,745
Limited tax refunding bonds	12,271	7,390			12,271	7,390
Limited tax improvement bonds	10,910	11,300			10,910	11,300
Other lending requirements	2,568	2,239	1,950	1,958	4,518	4,197
<b>Total</b>	<b>\$ 62,407</b>	<b>\$ 64,916</b>	<b>\$ 4,657</b>	<b>\$ 4,721</b>	<b>\$ 67,064</b>	<b>\$ 69,637</b>

The presently outstanding ad valorem tax supported debt of Webb County has an underlying rating of "A3" by Moody's, "A" by Standard & Poor's, and "A" by Fitch. By virtue of an insurance policy, the Certificates have received a rating of "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch.

Texas Statutes limit the amount of general obligation debt a government entity may issue to 5% of its total assessed valuation. The current debt limitation for the County of Webb is \$365,057,600 which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in note III G on pages 54 - 62 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S  
BUDGETS AND RATES**

The following economic factors were known as of the printing of this report:

- The unemployment rate for the County of Webb is currently 6.4%, which is a decrease from a rate of 6.9% a year ago.
- An additional \$10 million in debt was issued October 9, 2003 to be used for design, planning, acquisition, construction, and equipment for different projects to better serve the citizens of this county.

- Increases to Water Utility rates took effect September 1, 2003; this is part of our five year plan that started in fiscal year 2002 to meet business activity expenditures.
- County officials are working with state and federal agencies towards receiving a presidential permit to construct a 5<sup>th</sup> international port of entry between the United States and Mexico.
- During the 2003 – 2004 annual budget the County excluded the Webb County Casa Blanca Golf Course revenues and relinquished the management to the golf course operator. The County kept the cost of concern utility meters and repairs for the water lines over six inches in diameter. The County also pays the debt service for the golf course green revocation and clubhouse construction with no participation from the golf course operator.
- The County and the Jail Bargaining Unit reached an agreement on salary increments of 2% per year starting in October 1, 2003 through September 30, 2007. The estimated additional amount in personnel costs for this agreement is \$733,831 over the course of the contract.
- The Texas Commission on Jail Standards has determined that the Webb County Jail is not in compliance with jail standards. Furthermore, The Attorney General of the State of Texas has threatened to take legal action against the County for failing to stay within state regulations. One of the commission's findings was inmate overcrowding. Consequently, the County was forced to transfer inmates to Brooks County and Frio County; as a result, Webb County has estimated a loss of \$1.5 million in inmate revenue for the following fiscal year. Currently, County officials are working to resolve this issue.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Webb County Auditor's Office, 1110 Washington Street, Suite 201, Laredo, Texas 78040 or call (956) 523-4016.